

Message Text

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ACTION EUR-12

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INFO AMEMBASSY BONN

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AMEMBASSY LONDON

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C O N F I D E N T I A L THE HAGUE 4614

E.O. 11652: GDS

TAGS: EGEN, NL

SUBJECT: END OF NETHERLANDS' RECESSION NOT YET IN SIGHT

REF: (A) HAGUE 4604 (9/18/74)

(B) HAGUE 1939

(C) HAGUE 3118

1. FOR SOME TIME NOW THE MOOD AMONG GOVERNMENT OFFICIALS, BANKERS AND BUSINESS LEADERS REGARDING THE ECONOMY HAS BEEN PESSIMISTIC. WITH GOVERNMENT RECEIPTS ADVERSELY AFFECTED BY THE RECESSION, WHICH HAS NOT YET BOTTOMED OUT, THE PRESS HAD SPECULATED THAT THE BUDGET TO BE PRESENTED NEXT WEEK WOULD INVOLVE WHAT WAS CONSIDERED A VERY HIGH DEFICIT OF HFL 14 BILLION. DISCUSSIONS IN THE LAST WEEK WITH BANKERS AND OFFICIALS OF ECONOMICS MINISTRY, FINANCE MINISTRY AND CENTRAL PLANNING
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BUREAU (CPB) (WHICH DOES ANALYTIC SIDE OF BUDGET PLANNING), INDICATE THE GOVERNMENT PLANS FOR THE 1976 BUDGET AND ITS ECONOMIC UNDERPINNING. DETAILS OF THE BUDGET REMAIN CONFIDENTIAL, BUT ITS MACROECONOMIC ASPECTS ARE SHOWN IN THE ECONO-

MIC FORECAST FOR THE REST OF 1975 AND 1976, WHICH THE CPB PROVIDED THE EMBASSY ON A CONFIDENTIAL BASIS.

2. FORECAST FOR BALANCE OF 1975 CONTINUES THE STEADY DOWNWARD REVISION OF EXPECTATIONS SHOWN BY REFTELS. REAL GNP IS NOW EXPECTED TO DECLINE 2.5 PCT IN CONTRAST WITH THE ORIGINAL EXPECTATION THAT IT WOULD REMAIN CONSTANT. HOUSING AND BUSINESS INVESTMENT ARE PARTICULARLY HARD HIT DESPITE GOVERNMENT HELP MEASURES. UNEMPLOYMENT IS RISING TO 240,000, WELL ABOVE THE EXPECTED 200,000, CREATING SEVERE POLICY PROBLEMS FOR THIS LABOR-ORIENTED GOVERNMENT. INFLATION IS RISING TO 10 PCT ANNUALLY. THE BUDGET DEFICIT HAS JUMPED HFL 5 BILLION OVER THE PLANNED HFL 4 BILLION, FORCING THE GOVERNMENT INTO INFLATIONARY MONETARY FINANCING.

3. THE OUTLOOK FOR 1976 REMAINS GLOOMY, WITH ONLY MARGINAL REAL INCREASE IN GNP FORECAST (3.5 PCT) WHILE UNEMPLOYMENT REMAINS ESSENTIALLY UNCHANGED. HOUSING AND BUSINESS INVESTMENT WILL CONTINUE TO DECLINE DESPITE GOVERNMENT STIMULATION. CONSUMER PRICES WILL CONTINUE TO RISE, BUT AT THE SLIGHTLY REDUCED RATE OF 8-9 PCT.

4. THE PLANNED BUDGET DEFICIT WILL JUMP TO AN UNPRECEDENTED HFL 16.7 BILLION, FULLY 8 PCT OF NATIONAL INCOME AND 4 TIMES LAST YEAR'S PLANNED DEFICIT. A COMPARABLE DEFICIT FOR THE US WOULD BE OVER \$100 BILLION. FINANCING OF BUDGET DEFICIT OF THIS MAGNITUDE EXPECTED TO CREATE SERIOUS PROBLEMS. THE LARGEST DEFICIT PREVIOUSLY FINANCED WAS 5 PCT OF NATIONAL INCOME IN 1958. NOW WITH THE WEAK CONDITIONS OF THE CAPITAL MARKET THERE IS SERIOUS QUESTION AS TO HOW EXPECTED DEFICIT TO BE COVERED. OPTIMISTIC INDICATIONS ARE FUNDING OF ABOUT HFL 10 BILLION THRU DOMESTIC CAPITAL MARKET, WHICH COULD CAUSE HIKE IN INTEREST RATES, WITH THE REMAINING HFL 7 BILLION TO BE COVERED BY EXPANSION OF THE MONEY SUPPLY. THIS WOULD ADD FUEL TO INFLATIONARY PRESSURES AND RAISES DOUBTS ABOUT THE PROJECTED 8-9 PCT RATE OF PRICE INCREASE.

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5. AS FULL DETAILS OF BUDGET BECOME AVAILABLE, WE WILL SEND COMPLETE ANALYSIS OF PROJECTED CONTINUING DIFFICULT ECONOMIC SITUATION.
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<< END OF DOCUMENT >>

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